

Marco Meyer: How to deal with persistent trade imbalances within the eurozone

Background information on existing regulations/policy issues/initiatives

Keywords: *account surplus; current account balance; EU macroeconomic surveillance; EU macroeconomic imbalance procedure; Eurozone account surplus; Eurozone trade surplus; excessive imbalance procedure; trade surplus*

Topic: The European Union should make member states running persistent trade surpluses within the Euro area pay a penalty

- Mechanisms to deal with EU member state trade surpluses within the European market have already been established:
 - The Macroeconomic Imbalance Procedure¹ (MiP) was introduced in 2011 and features so-called Alert Mechanism Reports (AMRs)², which screen EU countries for potential economic imbalances needing remedy through policy action.
 - It is based on the following EU-legislation:
 - i. Regulation (EU) 1176/2011
Content: Sets out the MIP procedure and applies to all EU countries covered by the MIP
Summary: <http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex%3A32011R1176>
 - ii. Regulation (EU) 1174/2011
Content: Lays out enforcement measures to correct excessive macroeconomic imbalances specifies a sanction mechanism to enforce MIP recommendations for euro area countries
Summary: <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32011R1174>
- Numerous countries have been identified to have an excessive current account surplus over the past years by AMR-reporting, including Luxembourg, the Netherlands and Germany³.
 - However, no distinct sanctions have been applied following these conclusions⁴. A 2018 report the European Court of Auditors states that the Commission has never even recommended activating the Excessive Imbalance Procedure (EIP) – a strict system of monitoring that includes the option of sanctions for Eurozone member

¹ https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/macro-economic-imbalance-procedure_en

² https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/macro-economic-imbalance-procedure/alert-mechanism-report_en

³ <https://www.ceps.eu/system/files/PB%20No%20301%20DG%20and%20MB%20on%20EIP.pdf>

⁴ <https://www.eureporter.co/frontpage/2018/01/24/macro-economic-imbalance-procedure-mip-well-designed-but-not-implemented-effectively-say-eu-auditors/>

states. This is despite several member states having been identified with excessive imbalances over a prolonged period.⁵

Topic: Comments on the Macroeconomic Imbalance Procedure (MIP) and the issue of trade imbalances in general by NGOs/Political Partys/EU-officials

- “Member States are making progress in addressing their economic challenges. But this progress is uneven and in some cases must be stepped up.”⁶
- Olli Rehn, former EU Commissioner of Economic and Monetary Affairs
- “The EU Commission is using double standards. When it comes to the breaking of rules, the EU Commission treats Germany more leniently than Italy or France. While Italy is facing toughened austerity measures, the EU Commission is reluctant to start a procedure against Germany. The special treatment of Germany evokes a discomfort in Europe. It nourishes the reproach of a German Europe. If the EU Commission consistently applied its own rules, it would have to initiate proceedings against Germany's high export surplus, which threatens the proper functioning of the Economic and Monetary Union. The European Commission's unequal treatment of countries damages cohesion in Europe.”⁷
- Sven Giegold, financial and economic policy spokesperson of Greens/EFA
- “We have the tool to deal with this, called the macroeconomic imbalance procedure; it is not being used properly!”⁸
- Jean-Claude Trichet, former head of the European Central Bank (ECB)
- “To foster reform implementation at country level, a full and consistent application of the EU's policy framework is required, including the European Semester and the macroeconomic imbalance procedure. Likewise, full and consistent implementation of the Stability and Growth Pact remains crucial to ensure confidence in the EU's fiscal framework and to safeguard public debt sustainability.”
- Mario Draghi, President of the European Central Bank

⁵ <https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=44765>

⁶ <https://www.euractiv.com/section/euro-finance/news/brussels-renews-criticism-of-german-trade-surplus/>

⁷ <https://www.greens-efa.eu/en/article/press/special-treatment-of-germany-discomforts-europe/>

⁸ <https://www.politico.eu/article/jean-claude-trichet-on-global-finance-we-still-live-in-an-abnormal-situation/>

Topic: Studies/reports/papers concerned with the idea of a European “Clearing Union”

- <https://wpsa.research.pdx.edu/papers/docs/7%2020%20Hess%20Proposals%20for%20an%20ECU.pdf>
- <https://www.omfif.org/analysis/the-bulletin/2011/january/keynes-clearing-union-in-europe/>
- https://www.transform-network.net/uploads/tx_news/A_European_Clearing_Union_March_2011_02.pdf
- <https://www.econstor.eu/bitstream/10419/57064/1/682433462.pdf>
- https://www.econstor.eu/bitstream/10419/105944/1/imk-wp_2011-09.pdf
- http://www.levyinstitute.org/pubs/wp_866.pdf
- <https://www.ft.com/content/3e371bf2-7618-11e7-90c0-90a9d1bc9691>

Further reading

- https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/framework/macroeconomic-imbalance-procedure_en
- <http://www.europarl.europa.eu/legislative-train/theme-deeper-and-fairer-internal-market-with-a-strengthened-industrial-base-taxation/file-financial-transaction-tax>
- https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/macroeconomic-imbalance-procedure_en